Office of the Secretary
Service Date
September 20, 2005

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF UNITED WATER IDAHO INC. FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WATER SERVICE IN THE STATE OF IDAHO	**CASE NO. UWI-W-04-4** **FINAL ORDER ON RECONSIDERATION** **ORDER NO. 29871**

United Water Idaho Inc. initiated this case by Application filed November 30, 2004, requesting new rates for water service it provides to approximately 75,400 customers in Boise, Idaho and adjacent areas. The Commission convened a technical hearing on May 24-26, 2005, and the parties filed post-hearing briefs on June 9, 2005. The Commission issued its final Order No. 29838 on August 3, 2005 establishing a new revenue requirement for United Water, resulting in a rate increase of approximately 7.68%.

On August 17, 2005, Idaho Rivers United (IRU), an intervening party in the case, filed a Petition for Amendment or Reconsideration of Order No. 29838. IRU's Petition requested Commission review of a single issue: whether United Water should be directed to prepare a new or revised conservation plan. United Water filed an Answer to IRU's Petition on August 24, 2005. United Water also filed a timely Petition for Reconsideration on August 23, 2005, requesting reconsideration of nine issues: (1) use of the thirteen-month average methodology to determine rate base amount; (2) revenue from lease of the Initial Butte water rights; (3) allowance for funds used during construction (AFUDC) relating to the Initial Butte water rights; (4) pension expense calculation; (5) early retirement and enhanced severance costs; (6) deferred power costs; (7) a water quality testing expense; (8) rate case expense; and (9) business insurance expense. On August 30, 2005, the Staff filed an answer to United Water's Petition, addressing only the rate base methodology issue. United Water filed a Reply to the Staff's Answer, although the Company recognized "Replies to Answers to Petitions for Reconsideration are not specifically contemplated by the Commission's procedure rules."

The Commission by this Order denies reconsideration of Order No. 29838, except to (1) adjust the revenue amount from lease of the Initial Butte water rights and (2) correct calculation of the Company's revenue requirement to include the 1% carrying charge on deferred power costs we approved in Order No. 29838. The Commission also grants IRU's Motion for Amendment of the Order to direct United Water to prepare a conservation plan. We also clarify some of the Commission's decisions in Order No. 29838 in response to the issues or questions raised by the Company in its Petition.

AVERAGE RATE BASE METHODOLOGY

United Water first asks the Commission to reconsider its decision to use a thirteen-month average methodology to establish the Company's test year rate base, rather than a year-end or period end methodology.[1] The Company argues the average rate base methodology should not be used for three reasons: (1) the Company maintains the average rate base methodology will, "as a matter of mathematical certainty," be insufficient to allow the Company an opportunity to earn its allowed return; (2) United Water argues the rate base methodology violates the Company's entitlement to have included in rate base investments that are known and measurable; (3) United Water contends the capital intensive characteristics of the Company justify use of a year-end test year.

In support of its first argument United Water states: "the Commission's rate base calculation treats all post-test year additions in service as of December 31, 2004 as though they were placed in service in July, the end of the historical year." United Water Petition, p. 3. United Water then argues that "by allowing only a fraction of the total costs of construction projects actually in service at the end of the historical year, and by excluding post-test year investment, the revenue produced by allowed rates will produce a return of at least 80 basis points below the allowed return." United Water Petition, p. 4. In support of its second argument, the Company contends the average rate base methodology unlawfully prevents it from including in rate base investments that are known and measurable. The Company states "the Idaho Supreme Court has made clear that the utility is entitled to a return on post-test year investments that are known and measurable." The third argument United Water makes to support use of its rate base methodology is the capital cost characteristics of the Company. The Petition for Reconsideration asserts that "United Water is highly capital intensive and its growth in rate base per customer is at a rate much greater than customer and usage growth." United

[1] The year-end methodology accepts the rate base investment as of the last month of the test year, in this case, July 2004. Because United Water proposed to add to the test year rate base all investment it made through the time of hearing in May 2005, its rate base methodology is not, strictly speaking, a year-end methodology. For convenience, we use the term "year-end" to distinguish the Company's rate base methodology from the thirteen-month average methodology.

Water Petition, p. 4. Compared to electric utilities, the Company contends it "must make higher than average cost additions to rate base to meet its growing load." *Id.*

For these reasons, United Water alleges the Commission's Order is erroneous and, "by failing to consider and discuss these objections to the thirteen month average rate base method, the Order, contrary to established law, fails to adequately explain the reasons for departing from the year-end method." *Id.* The arguments presented by United Water in its Petition for Reconsideration are not new. They were raised in its rebuttal case and in its post-hearing memorandum. The Commission considered the Company's arguments and evidence when determining that a thirteen-month rate base methodology is appropriate in this case. The Commission accordingly denies reconsideration on this issue but will provide additional clarification.

First, we note again as we did in Order No. 29838 that the Commission "has historically approved use of an average rate base rather than a year-end rate base on which a utility can earn its authorized investment return." Order No. 29838, p. 5. Some of that history is noted in the Commission's Order. Recognizing that United Water was allowed use of the year-end methodology in cases since 1993, we noted there was "Commission disapproval that the Company had not included an average rate base methodology, at least as an option for the Commission to consider." Order No. 29838, pp. 5-6. In each case where the Company's year-end rate base was used, "the year-end methodology was approved only because no party objected or proposed a different methodology." *Id.* The Commission's rate base methodology in this case thus is not "departing from the year-end method" so much as it is returning United Water's rate cases to what had been established Commission practice.

The primary purpose for using an average rate base methodology is to minimize a mismatch between costs and revenues that occurs when plant investment is included in the test year, even though it is completed late in the year or after end of the test year. United Water succinctly summarized the mismatch dilemma in its testimony regarding a new treatment facility called Columbia Water Treatment Plant (CWTP). On the expense side of the ledger, "the amount of investment associated with a facility such as the CWTP is known and measurable," and it may even be possible to estimate operations and maintenance expenses "with a high degree of accuracy." Tr. p. 18. On the other side of the ledger, however, "the revenue producing or expense mitigating effects of the CWTP are much more difficult to identify because they are not yet known and measurable." *Id.* The revenue producing and expense reducing effects simply may not be measurable until after a period of operation of the new plant. It is unfair to ratepayers to include the full costs of new plant without also including some adjustments to revenue or expenses, recognizing the plant will provide a benefit to customers along with its costs.

United Water recognized the mismatch concern of the Commission, and specifically reviewed the Commission's final Orders in the two most recent electric utility rate cases to ascertain ways to address it. The Company understood from its review of the Orders that "the Commission is concerned that when significant plant improvements are completed during the test period proper, or post-test period, there should be an effort made by the Company to identify expense reductions and/or revenue additions associated with the plant improvements." Tr. p. 17. The Company's general manager explained that the Company proposed to include in rate base the CWTP, although it would not begin providing service until March 2005, some eight months after end of the test year. Accordingly, to address the known mismatch concern, United Water "used its best efforts in proposing adjustments that both increase revenues and decrease expenses as a result of the addition of the CWTP." *Id.* The Commission allowed the CWTP in the test year rate base at its full costs, as if it had been in place during the entire year, and also accepted as appropriate the associated adjustments to revenue and expenses made by the Company. Order No. 29838, p. 6. Because the CWTP was included in rate base as if completed at the start of the test year, the average rate base methodology does not reduce the CWTP test year costs.

United Water, however, did not limit inclusion of post-test year investments to the CWTP, although that plant accounted for a large part of the increase in the Company's rate base. Order No. 29838, p. 3. United Water in its Petition for Reconsideration characterizes its CWTP related revenue and expense adjustments as being made "in conjunction with its proposal to use a year end test year," as if it had intended the adjustments to account for all of the late added plant. United Water Petition, p. 5. The record is clear, however, that the Company's revenue and expense adjustments only relate to the CWTP. For example, acknowledging the Commission's concern about a mismatch between plant investment and revenue and expenses when post-test year plant is included in the test year, "the Company proposed an adjustment to revenue and expenses associated with including the CWTP." Order No. 29838, p. 4. The Commission's Order quotes several relevant portions of Company testimony, including that it "used its best efforts in proposing adjustments that both increase revenues and decrease expenses as a result of the addition of the CWTP." Order No. 29838, p. 4. The specific revenue adjustment "attributable to the CWTP made by United Water was to increase test year revenue 'by $462,480 to account for additional customers, annualized at existing rates, from July 31, 2004, the end of the test year, through May 31, 2005.'" Order No. 29838, p. 4, *quoting* from Tr. p. 18. The Company also adjusted expenses by reducing power and chemical expenses "to reflect changes in system operation caused by use of the CWTP." *Id.* The Commission noted that Staff, "[t]o address the mismatch created by including the CWTP in the test year rate base, . . . proposed to accept the CWTP related expense and revenue adjustments made by United Water." Order No. 29838, pp. 4-5. On this record, we found it "reasonable and appropriate to include the CWTP investment in rate base, and to accept the associated revenue and expense adjustments proposed by United Water." Order No. 29838, p. 6.

The Company simply did not propose any adjustments to test year expenses or revenues to minimize the mismatch resulting from including the non-CWTP plant costs in the test year at full value. Including the additional out-of-year plant now at full costs would create a mismatch between those costs and the Company's revenue and expenses that will change as the result of the added plant. The average rate base methodology reduces the test year impact of the non-CWTP plant, and that is appropriate where the plant costs are included without any revenue or expense adjustments. The Commission has long addressed this mismatch in part by using an average rate base methodology. *See, e.g., Utah Power & Light Company v. IPUC,* 105 Idaho 822, 825, 673 P.2d 422 (1983) (affirming the Commission's use of an average test year because it "better matched the company's revenues to expenses, since the commission determined that Utah Power's data submitted on the basis of a year end rate base contained certain mismatches between costs and revenues."); *Citizens Util. Co. v. Idaho Public Utilities Commission,* 99 Idaho 164, 579 P.2d 110 (1978) (approving Commission's use of average year rate base formula).

United Water also contends the Commission incorrectly concluded in Order No. 29838 that the evidence on its adjustments to address the cost/revenue mismatch is uncontroverted. The Company makes this argument, however, only by characterizing its CWTP related adjustments as being offered to offset *all* of its out-of-test year plant to be included in a year-end rate base calculation. Thus, the Company asserts in its Petition that it "argued strongly" in rebuttal testimony that "while using projected revenue was appropriate for the year end methodology, it was inappropriate when using the 13-month method." United Water Petition, p. 5.

Although the Company in its rebuttal testimony may have characterized its test year revenue adjustment as offered to correct a mismatch that only occurs by using a year-end rate base methodology, there can be no doubt United Water initially characterized the adjustments to test year revenue and expenses as related to including all CWTP costs in rate base. We noted in the Order that "[b]oth Staff and the Company included the CWTP in the test year as if it were completed for the entire year." Order No. 29838, p. 6. Staff and the Company agreed on the revenue and expense adjustments that were made because the CWTP was included in rate base, and no other party objected to these test year adjustments. The Commission thus concluded, because "Staff testified in support of the corresponding revenue and expense adjustments, . . . the evidence on the adjustments as a means to correct the mismatch . . . is uncontroverted." *Id.* On this record, the Commission correctly stated that the evidence on the revenue adjustment as a means to correct the mismatch *created by including the CWTP in rate base* was uncontroverted. The revenue and expense adjustments were offered, and were accepted by the Commission, to help balance revenues with the costs of the CWTP that were included in rate base the same as they would be in a year-end calculation.

With that clarification, we turn to the specific arguments made by United Water in its Petition for Reconsideration for use of a year-end rate base methodology. The Company's first argument is that the average rate base methodology will not allow the Company an opportunity to earn its authorized return. United Water argues that "by allowing only a fraction of the total costs of construction projects actually in service at the end of the historical year, and by excluding post-test year investment, the revenue produced by allowed rates will produce a return of at least 80 basis points below the allowed return." The Company cites the testimony of a rebuttal witness and his Exhibit 17. The witness testified that the rate base calculated by *Staff,* using a thirteen-month average rate base, would cause United Water to "suffer rate of return attrition." Tr. p. 1038. The Company's testimony in the record does not support its argument that the *Commission's* rate base calculation will, "as a matter of mathematical certainty, be insufficient to allow the Company an opportunity to earn its allowed return." United Water Petition, p. 3. More importantly, the assumptions and resulting calculations made by the Company's witness to support his testimony about a rate of return shortfall are incomplete. In his calculation, the witness compared adjusted test year revenue to the total rate base investments expected to be made by the Company. The total rate base figure includes significant plant costs added well after the test year, but the witness did not make any revenue or expense adjustments for the late added plant. It is unreasonable to assume new plant will not have an impact on Company revenues or expenses. The effects of the new plant will not be known until it has operated for a period of time. Without additional adjustments to revenue and expenses, it is not possible to make an accurate estimate of the Company's future rate of return.

As to its second argument regarding the thirteen-month average rate base methodology, the Company contends it is unlawfully prevented from including in rate base investments that are known and measurable. The Company states "the Idaho Supreme Court has made clear that the utility is entitled to a return on post-test year investments that are known and measurable." In support of its statement, the Company references and quotes from *Utah Power and Light v. Idaho Public Utilities Commission*, 102 Idaho 282, 629 P.2d 678 (1981), where the Court said "the commission should include in the rate base all items which are proven with reasonable certainty to be justifiably used by the utility in providing services to its customers." United Water Petition, p. 4.

The Commission did not exclude reasonably known and measurable investments from the test year rate base. In fact, we included investments made by the Company through eight months after the end of the test year. The Commission stated that, "rather than limit post-test year additions to those capital expenditures incurred by December 31, 2004 as proposed by Staff, we find it reasonable in this case to allow into rate base the post-test year capital expenditures incurred by March 31, 2005, as described in Company witness Rhead's Revised Rebuttal Exhibit No. 16, Schedule 8." Order No. 29838, p. 6. The average rate base methodology reduces the test year impact of late plant additions, but more importantly is a reasonable means to reduce the mismatch that would occur if the full costs were added without adjusting for future changes to revenues and expenses as a result of the added plant.

The third argument United Water makes to justify use of a year-end test year is that United Water is "highly capital intensive" and, compared to electric utilities, it "must make higher than average cost additions to rate base to meet its growing load." United Water Petition, p. 4. The Company's evidence on this point is refuted in the record and was rejected by the Commission in its final Order. For example, a Staff witness testified that "the rate base increase per customer for United Water [is] significantly less than the rate base increase [per customer] for Idaho Power." Tr. p. 827. Staff calculated the increase in rate base for United Water to be $41 per customer during its test year, and Idaho Power Company's rate base increase as $300 per customer during its test year. Tr. p. 832.

The arguments presented by United Water in its Petition for Reconsideration were considered by the Commission when determining that a thirteen-month rate base methodology is appropriate in this case. The Commission accordingly denies reconsideration on this issue.

SPECIFIC EXPENSE AND REVENUE ISSUES IDENTIFIED BY UNITED WATER ON RECONSIDERATION

The remaining issues addressed by United Water in its Petition for Reconsideration are individual items. One issue regarding an allowance for funds used during construction (AFUDC) impacts rate base and the remaining items affect revenues and expenses. The Commission grants reconsideration on two issues to correct identified expenses or revenue, not requiring additional evidence, and denies reconsideration on the remaining issues raised by United Water.

A. Revenue from Lease of Initial Butte Water Rights and Associated Adjustment to Purchased Water Expenses

The Commission in Order No. 29838 approved United Water's costs incurred in strengthening existing and acquiring new water rights, which costs are added to its rate base. Noting the Company's steady growth in customers, we found the costs reasonable, recognizing that "the only method available to the Company to increase its supply of water is to obtain, strengthen and consolidate water rights in both surface water and groundwater." Order No. 29838, p. 11. In its Petition for Reconsideration, the Company raised two issues related to its Initial Butte water rights that allow it to divert water from the Snake River. The first is revenue imputed by the Commission for the Company's lease of its Initial Butte water rights.

The Commission learned at the hearing that United Water had leased or was about to lease its diversion rights under the Initial Butte water rights. Based on the testimony of Company witness Rhead, the Commission calculated revenue from the Company's 2005 lease of its Initial Butte water rights to be $152,584, and imputed that amount to the Company's annual income. Order No. 29838, p. 10. The Order further states: "When lease revenues are not received and the Snake River rights are exchanged for Boise River rights, purchased water transactions should be reduced. This is therefore a reasonable imputation that increases net income, whether from lease revenues or from reduced purchased water expenses." Order No. 29838, pp. 10-11.

United Water attached to its Petition for Reconsideration an Affidavit of Scott Rhead, stating that the Initial Butte lease negotiations concluded after the hearing and the actual amount of lease revenue will be $48,114, not the $152,584 amount established at the hearing. United Water requests use of the updated amount and also argues that a "more appropriate accounting treatment would be to book the lease revenue as a deferred credit and amortize the credit over a reasonable period of time of three to five years." United Water Petition, p. 8.

The Commission grants reconsideration on this issue to change the amount of Initial Butte lease revenue to $48,114 as established in the Affidavit of Scott Rhead. The information regarding lease of the Initial Butte water rights was not presented prior to the time of hearing. At the time of hearing the Company had placed the entire amount of water available under its Initial Butte rights into the Water Bank Rental Pool, and the Commission determined the anticipated lease revenue by a simple mathematical calculation. Tr. p. 212. The Company's affidavit provides accurate information that was not available at the time of hearing. It establishes that the Company was able to lease only a portion of its Initial Butte rights, resulting in income of $48,114. Affidavit of Scott Rhead, p. 2. It is appropriate to use the updated figure and impute that amount, rather than $152,584, to the Company's income.

The second issue is associated with the appropriate accounting treatment for lease revenues. The Commission denies reconsideration on the accounting treatment for the Initial Butte lease revenue, as we continue to find it reasonable and appropriate to include the lease revenue in the Company's annual income. As stated in Order No. 29838, it is expected that in years when the Snake River rights are exchanged for Boise River rights, as was intended with United Water's purchase of the Initial Butte water right, other purchased water transactions should be less. We find that booking the lease revenue to income is appropriate rather than amortizing the 2005 lease amount as a credit. These revenues and expenses will be evaluated for accuracy in future rate cases.

B. AFUDC on Initial Butte Water Rights

United Water had included in rate base $390,017 as an allowance for funds used during construction (AFUDC) related to the purchase of the Initial Butte water rights, claiming that purchasing water rights is similar to acquiring land. AFUDC normally accrues for construction work in progress. The Commission determined that "purchases of water rights should not accrue AFUDC" and excluded $393,348 from rate base. Order No. 29838, p. 12. The Company argues in its Petition that water rights are similar to interests in real property, and like other costs associated with the acquisition of a tangible asset, such as land, should be subject to AFUDC accrual.

We find that the appropriate accounting treatment for acquisition costs of water rights is as stated in Order No. 29838, and therefore deny reconsideration on this issue. Although water rights are property interests and real property for plant-in-service determination, they are not construction projects and should not accrue AFUDC. For regulatory accounting purposes, water rights should be booked to Preliminary Survey and Investigation Charges, Account 183, while they are being pursued and then booked to a sub-account in Land and Land Rights, Account 303, in the Plant in Service records once the rights have been secured. This allows the Company to recover all of its water rights acquisition costs.

C. Pension Expense

United Water requests reconsideration of the Commission's calculation for its annual pension expense, asserting that its proposed accounting for pension expense is preferable to the method adopted by the Commission. One accounting option is derived from the Employee Retirement Income Security Act (ERISA), which establishes a minimum contribution level of funding for a company's pension fund. The other accounting method is to use an expense calculation set forth by an industry accounting standard, Statement of Financial Account Standards No. 87 (FAS 87). The Commission found, for the purpose of regulatory reporting and rate recovery, that the ERISA minimum contribution level of funding was more appropriate than the pension expense calculation under FAS 87. Order No. 29838, p. 18.

The Company argues in its Petition for Reconsideration that the Commission's use of the ERISA minimum contribution level of funding "is inconsistent with this Commission's prior decisions on this issue in all of the Company's rate cases since 1993." United Water Petition, p. 11. The Company also states that the Commission's treatment of the pension expense is inconsistent with the methodology used to calculate the Company's other post employment benefits under FAS Statement No. 106. *Id.* The Company argues: "Staff's ERISA method only calculates the required cash needed now, without recognition of the liability that must be funded at some future point. The FAS 87 amount, which must be recorded on the Company's books, correctly reflects both the cash required and the future liability." United Water Petition, p. 13.

The Commission explained why the FAS 87 calculation of pension expense is not appropriate for regulatory rate recovery, and that it was not developed for that purpose. FAS 87 "was developed for the purpose of having a standardized number for reporting pension liability on a company's financial statements," and does not "represent the actual contributions that a company makes to the plans' fund." Order No. 29838, p. 18. The Commission concluded: "the goals of regulatory ratemaking and recovery are best met, under the facts of this particular case, by allowing recovery of the actual amounts of cash contributions that United Water would have been required to contribute to the plan for the test year. In this instance the amount can best be represented by the ERISA minimum contribution level of funding." Order No. 29838, p. 18. We continue to find the ERISA contribution amount to more accurately reflect the actual recovery required in rates for pension expense for the Company, and therefore deny reconsideration on this issue.

D. Early Retirement Plan (ERP) and Enhanced Severance Package (ESP) Costs

United Water had included in its test year expenses an amount to recover past costs of its Early Retirement Plan and Enhanced Severance Package (ESP). The Company proposed to amortize these costs over 60 months, adding more than $300,000 to its annual revenue requirement. The Commission removed the amortized expense for the deferred ERP and ESP costs from the Company's expenses. The Commission removed the ERP and ESP expenses, determining that the costs were significant expenses requiring Commission authorization to defer, which the Company failed to obtain. Order No. 29838, p. 19. In its Petition, the Company argues that the Commission accepted the deferral of these costs in its last rate case, UWI-W-00-1, even though the Company had not applied for an accounting order authorizing the deferral. United Water Petition, p. 13.

It is well settled that approval for deferral of significant expenses must be obtained from the Commission before those expenses can be recovered in rates. The Company's written policies recognize this, stating that, "in instances involving large dollar amounts or out of the ordinary circumstances, Regulatory Business will seek an accounting order from the

Commission to ensure acknowledgement and thereby reduce the risk of not recovering the expense." Order No. 29838, p. 19, *citing* Tr. p. 464. It is undisputed that the ERP and ESP expenses were significant and that United Water did not seek an accounting order authorizing their deferral. In addition, these types of programs typically are self-funding and their costs thus are not separately recoverable in rates. Tr. p. 465. It is true similar expenses were allowed in the Company's last rate case, but the circumstances of that case, including the timing of implementation of the programs and the filing of the rate case, were different than the facts of this case. There is no evidence in this case to indicate the ERP and ESP programs, which were implemented several years ago, are not self-funding. We therefore deny reconsideration on recovery of the amortized ERP and ESP expenses.

E. Deferred Power Costs

Pursuant to a Commission Order issued in 2001, United Water was authorized to establish a deferral account for incremental costs resulting from increases in Idaho Power Company's electric power rates beginning May 1, 2001. *See* Order No. 28800. The Commission anticipated that the deferred amount would eventually be recovered in customer rates, but the Commission in the 2001 Order reserved judgment on United Water's request for a carrying charge. In this case the Commission allowed amortization and recovery of the deferred amount, and also allowed a 1% carrying charge to be included in the recovery. Order No. 29838, p. 21. The Company argues on reconsideration that the Order "states that a 1% carrying charge is appropriate without including it in the revenue requirement," and that the deferral "should be afforded traditional rate base treatment and not be subject to any carrying charge." United Water Petition, p. 15.

We continue to find that allowance of a 1% carrying charge is consistent with the power cost adjustment, the source of this deferral. Amortization of the actual expenditures plus the 1% carrying charge during deferral is the appropriate method for recovery, rather than to allow the deferred costs into rate base. It does appear, however, that an error occurred in the Commission's calculation of the Company's revenue requirement so that the 1% carrying charge was not included in the final calculations. The Commission allowed recovery of the deferred amount carried on the Company's books from May 1, 2001 through June 30, 2005, and authorized a carrying charge of 1%. Order No. 29838, p. 22. We therefore grant reconsideration on this issue to correct the calculation of the revenue requirement to include $31,565 for the 1%

carrying charge on the deferred power costs. This Order increases the deferral amount to actuals and adds the carrying charge for a total of $1,501,933, with the annual amortization of $500,644 included by adjusting the Company's revenue requirement in Revised Attachments 1 and 2. We deny reconsideration on the Company's request to allow rate base treatment of the deferred power costs.

F. Water Quality Testing

The Commission in Order No. 29838 authorized amortization and recovery of a $12,000 expense for the Long Term 2 Enhanced Surface Water Treatment Rule (LT2ESWTR) test that the Company will conduct during 2005. Order No. 29838, p. 22. The record established that this is a two-year test requirement that will also occur in 2006. Because the expense is $12,000 for each year, the Company argues that the proper amount to be amortized is $24,000 rather than $12,000.

It is not appropriate to include the 2006 test expense in this case for the same reasons it is not appropriate to attempt to add other future costs into a historic test year that ended July 31, 2004. Even though we can be reasonably certain the Company will incur this particular expense in 2006, it is unfair to ratepayers to include future expense items in a revenue requirement when unknown future revenues and cost savings cannot be included. The Company will be able to recover a similar amortization of its 2006 expenses in a future rate case utilizing a 2005 or 2006 test year.

G. Rate Case Expense

The Commission approved for recovery United Water's rate case expenses as initially estimated by the Company, which were $245,000, minus a reduction agreed to by the Company for costs of a public information campaign. Order No. 29838, p. 24. We also approved a four-year amortization period to recover the rate case expenses. The Company filed the Affidavit of Jeremiah Healy with its Petition for Reconsideration, stating the July 2005 Balance Sheet deferred rate case expense is $358,392.07. The Company also states in its Petition that it has since processed three additional rate case invoices, including the Commission's award of intervenor funding, bringing the total costs to $392,834.16. United Water Petition, p. 17.

The Commission normally does not recognize updates to rate case expenses provided through Petitions for Reconsideration. Instead, rate case expenses that exceed the amount initially allowed for recovery are tracked in a deferral account and then may be recovered in a future proceeding. The rate case expense amount included for recovery in Order No. 29838 was the best available number at the time.

The Commission included the intervenor funding awards in the annual revenue requirement, rather than amortizing them with other rate case expenses, with the knowledge that the expense amount included in the revenue requirement would not cover all the rate case costs. Because intervenor costs are Commission ordered costs, we elected to directly include them in the revenue requirement for this case. The rate case deferral account will reflect actual rate case expenses, where any costs legitimately incurred by the Company over what was included for recovery in Order No. 29838 may be recovered in an appropriate future proceeding. Accordingly, we deny reconsideration of this issue.

H. Business Insurance Expense

The Commission approved an annual business insurance expense of $899,036 in the Company's revenue requirement. This is less than the amount of $1,083,000 requested by the Company. We accepted an adjustment recommended by Staff because "the record demonstrates amounts paid by the parent company, United Water Resources, Inc., but does not clearly indicate those values on a United Water Idaho level." Order No. 29838, p. 25. The Petition for Reconsideration states simply that United Water "presented evidence in its rebuttal demonstrating that the Company supplied both the United Water Resources level insurance and the United Water Idaho level actually billed to the Company." United Water Petition, p. 18. The Company referenced Exhibit 15, Schedule 12.

Exhibit 15, Schedule 15, rather than Schedule 12, is the business insurance expense exhibit. We cannot determine from that exhibit, however, the proper allocation of business insurance expense between the parent company and United Water. Exhibit 15, Schedule 15, appears to contain corporate-wide numbers and no specific amount billed to United Water Idaho. Consequently we deny reconsideration on the business expense issue identified by the Company.

ADJUSTED REVENUE REQUIREMENT

The two revenue and expense adjustments approved on reconsideration by the Commission change United Water's revenue requirement from our final Order. As the result of the reduced revenue from lease of the Initial Butte water rights, the Company's adjusted annual operating revenue is reduced by $104,470. Correcting the calculation of the 1% carrying charge on the deferred power costs adds $10,880 to the amortization included in the Company's operating expenses. Together, these adjustments increase United Water's revenue requirement by $116,090 over that approved by the Commission in Order No. 29838. This results in a final overall rate increase of approximately 8.08%.

IDAHO RIVERS UNITED PETITION

Idaho Rivers United (IRU) filed a Petition for Amendment or Alternatively for Reconsideration on the sole issue of whether United Water should be directed to prepare a new or revised conservation plan. IRU Petition, p. 1. IRU states that although this issue was largely undisputed among IRU, United Water, and Commission Staff, Order No. 29838 simply does not address the issue. *Id.*

On August 24, 2005, United Water filed an Answer to IRU's Petition. United Water acknowledged that it "agrees that the preparation of a new conservation plan is appropriate," and at hearing the Company "committed to undertake steps toward the creation of a new conservation plan." United Water Answer, p. 1. The Company disagreed with IRU's recommendation that a plan be completed and submitted to the Commission by December 15, 2005, and suggested a nine-month deadline. United Water recommended that the plan evaluate viability and cost-effectiveness of various measures, and that implementation should not be required until after evaluation of the plan.

Order No. 29838 is indeed silent regarding a conservation plan. It is not necessary to grant reconsideration on this issue; instead, the Commission amends its Order to address it. Based upon the agreement of the parties, United Water is directed to prepare a conservation plan and submit it to the Commission for review no later than April 1, 2006. Given the increasing demand for water and growth in number of United Water customers, it is prudent for United Water to update its water conservation plan. Implementation issues, including viability and cost-effectiveness of various conservation measures, will be determined after the plan is submitted to the Commission for review.

O R D E R

IT IS HEREBY ORDERED that the Petition for Reconsideration filed by United Water is denied, except to adjust the amount of Initial Butte lease revenue to $48,114 as established in the Affidavit of Scott Rhead, and to correct calculation of the revenue requirement to include the 1% carrying charge on the deferred power costs, as set forth in this Order. As a result of these adjustments, the Company is authorized to file new tariffs to reflect an increase in its authorized revenue requirement in the amount of $116,090, to be effective three days after filing with the Commission.

IT IS FURTHER ORDERED that the Petition for Amendment or Alternatively for Reconsideration filed by Idaho Rivers United is granted to amend Order No. 28938 to direct United Water to prepare and file a conservation plan as set forth in this Order.

THIS IS A FINAL ORDER ON RECONSIDERATION. Any party aggrieved by this Order or other final or interlocutory Orders previously issued in this Case No. UWI-W-04-4 may appeal to the Supreme Court of Idaho pursuant to the Public Utilities Law and the Idaho Appellate Rules. See *Idaho Code* § 61-627.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 20th day of September 2005.

Paul Kjellander

PAUL KJELLANDER, PRESIDENT

Marsha H. Smith

MARSHA H. SMITH, COMMISSIONER

Dennis S. Hansen

DENNIS S. HANSEN, COMMISSIONER

ATTEST:

Jean D. Jewell

Jean D. Jewell
Commission Secretary

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UNITED WATER IDAHO
UWI-W-04-4
13-Month Average Rate Base and Operating Results Test Year Ended July 31, 2004 with Pro Forma Adjustments

Line No.	Description	(A) UWI Rate Base per Company Records and Adjusted Test Year Operating Results (see Source below)	(B) Adjustment to 13-Month Average Rate Base and Accumulated Deferred Federal Income Tax	(C) Rate Base and Operating Expenses on 13-Month Average	(D) Adjustment to Eliminate Allowance for Funds Used During Construction (AFUDC) on Cancelled Purchase Order	(E) Adjustment to Include Initial Butte Lease Revenue	(F) Adjustment to Remove Water Rights AFUDC, Reclassify Tax Gross Up on AFUDC and Remove Associated Depreciation	(G) Adjustment to Include Jobs Creation Act Tax Credit
1	Utility Plant In Service	$ 227,483,399	$ 18,119,084	$ 245,602,483	$ (258,772)		$ (1,089,694)	
2	Accumulated Depreciation, Amortization of Utility Plant Acquisition Adjustment (UPAA) and Amortization of Plant Held for Future Use (PHFU)	(55,287,819)	(1,848,750)	(57,136,569)	12,939		7,323	
3	Net Utility Plant	$ 172,195,580	$ 16,270,334	$ 188,465,914	$ (245,833)	$ -	$ (1,082,371)	$ -
4	Customer Advances for Construction	(7,072,337)	201,816	(6,870,521)				
5	Contributions in Aid of Construction (net)	(44,670,359)	1,467,382	(43,202,977)				
6	Utility Plant Acquisition Adjustments (gross)	600,762		600,762				
7	Accumulated Deferred Income Taxes	(11,144,388)	(2,388,411)	(13,532,799)				
8	Pre-1971 Investment Tax Credits	(14,328)	-	(14,328)				
9	Deferred Charges	1,635,124		1,635,124			696,346	
10	Working Capital	2,045,126		2,045,126				
11	**Total Rate Base**	**$ 113,575,180**	**$ 15,551,121**	**$ 129,126,301**	**$ (245,833)**	**$ -**	**$ (386,025)**	**$ -**
12	Operating Revenues	$ 31,534,832		$ 31,534,832		$48,114		
	Operating Expenses							
13	Operation and Maintenance	13,403,512		13,403,512				
14	Depreciation	6,386,509	(485,413)	5,901,096	(12,939)		(13,566)	
15	Amortization Of PHFU	-		-				
16	Amortization Of UPAA	9,329		9,329				
17	Total Depreciation and Amortization	$ 6,395,838	$ (485,413)	$ 5,910,425	$ (12,939)	$ -	$ (13,566)	$ -
	Taxes Other Than Income							
18	Ad Valorem	1,570,941		1,570,941				
19	Payroll Taxes	352,271		352,271				
20	Total Taxes Other	$ 1,923,212	$ -	$ 1,923,212	$ -	$ -	$ -	$ -
21	Total Operating Expenses Excluding Income Taxes	$ 21,722,562	$ (485,413)	$ 21,237,149	$ (12,939)	$ -	$ (13,566)	$ -
22	Operating Income Before Income Taxes	$ 9,812,270	$ 485,413	$ 10,297,683	$ 12,939	$ 48,114	$ 13,566	$ -
	Income Taxes							
23	State Income Taxes	(234,009)	38,833	(195,176)	1,035	3,849	1,085	
24	Federal Income Taxes	1,552,475	156,303	1,708,778	4,166	15,493	4,368	(86,543)
25	Total Income Taxes	$ 1,318,466	$ 195,136	$ 1,513,602	$ 5,201	$ 19,342	$ 5,454	$ (86,543)
26	**Utility Operating Income**	**$ 8,493,804**	**$ 290,277**	**$ 8,784,081**	**$ 7,738**	**$ 28,772**	**$ 8,112**	**$ 86,543**

Source of Col. A: Rate Base (Lines 1 - 11) in Col. A from J. Healy Exhibit No. 1, Page 1 of 9, Col. A (per Books July 31, 2004)
Revenue (12) in Column A from F. Gradilone Exhibit No. 6, Schedule 1, Page 2 of 2, Col. 6
Operating Results (Lines 13 - 26) in Column A from J. Healy Exhibit No. 2, Col. 4 (Adjusted Test Year)

REVISED ATTACHMENT 1
PAGE 1 OF 2
CASE NO. UWI-W-04-4
ORDER NO. 29871

UNITED WATER IDAHO
UWI-W-04-4
13-Month Average Rate Base and Operating Results Test Year Ended July 31, 2004 with Pro Forma Adjustments

Line No.	Description	(H) Adjustment to Remove Non-Regulated UWI Management and Services Fees	(I) Adjust Carriage Hill Revenue per Commission Order	(J) Adjustment for Various Expenses and Related Deferred Charges	(K) Adjustment to Disallow Early Incentive Payments	(L) Adjustment to Reduce Arrowhead Canyon Plant in Service	(M) Debt Interest Restatement	(N) Commission Approved Rate Base and Pro Forma Operating Income
1	Utility Plant In Service				$ (287,000)	$ (175,000)		$ 243,792,017
2	Accumulated Depreciation, Amortization of Utility Plant Acquisition Adjustment (UPAA) and Amortization of Plant Held for Future Use (PHFU)				10,861			(57,105,446)
3	Net Utility Plant	$ -	$ -	$ -	$ (276,139)	$ (175,000)	$ -	$ 186,686,571
4	Customer Advances for Construction							(6,870,521)
5	Contributions in Aid of Construction (net)							(43,202,977)
6	Utility Plant Acquisition Adjustments (gross)							600,762
7	Accumulated Deferred Income Taxes							(13,532,799)
8	Pre-1971 Investment Tax Credits							(14,328)
9	Deferred Charges			(1,218,619)				1,112,851
10	Working Capital							2,045,126
11	**Total Rate Base**	**$ -**	**$ -**	**$ (1,218,619)**	**$ (276,139)**	**$ (175,000)**	**$ -**	**$ 126,824,685**
12	Operating Revenues		$5,628					$ 31,588,574
	Operating Expenses							
13	Operation and Maintenance	(20,678)		(1,030,017)				$ 12,352,817
14	Depreciation				(10,861)			$ 5,863,730
15	Amortization Of PHFU							0
16	Amortization Of UPAA							9,329
17	Total Depreciation and Amortization	$ -	$ -	$ -	$ (10,861)	$ -	$ -	$ 5,873,059
	Taxes Other Than Income							
18	Ad Valorem							$ 1,570,941
19	Payroll Taxes			(4,556)				347,715
20	Total Taxes Other	$ -	$ -	$ (4,556)	$ -	$ -	$ -	$ 1,918,656
21	Total Operating Expenses Excluding Income Taxes	$ (20,678)	$ -	$ (1,034,573)	$ (10,861)	$ -	$ -	$ 20,144,532
22	Operating Income Before Income Taxes	$ 20,678	$ 5,628	$ 1,034,573	$ 10,861	$ -	$ -	$ 11,444,042
	Income Taxes							
23	State Income Taxes	1,654	450	82,766	869		123,546	$ 20,078
24	Federal Income Taxes	6,658	1,812	333,133	3,497		342,873	2,334,235
25	Total Income Taxes	$ 8,312	$ 2,262	$ 415,898	$ 4,366	$ -	$ 466,419	$ 2,354,313
26	**Utility Operating Income**	**$ 12,366**	**$ 3,366**	**$ 618,675**	**$ 6,495**	**$ -**	**$ (466,419)**	**$ 9,089,729**

REVISED ATTACHMENT 1
PAGE 1 OF 2
CASE NO. UWI-W-04-4
ORDER NO. 29871

United Water Idaho
Operating Expense Adjustments

Adjustment No. (1)	Description (4)	Actual Twelve Months Ended July 31,2004 (5)	Company Adjustments (6)	Company Pro Forma Expense (Original) (7)	IPUC Staff Pro Forma Expense (8)	Company Pro Forma Expense (Rebuttal) (9)	Difference, Staff vs. Company Rebuttal (10) = (8)-(9)	Commission Decision (11)	Commission Adjustment (12) = (11)-(7)
Summary	Adjusted O&M:								
1	Payroll to O&M	$ 3,155,584	$ 232,555	$ 3,388,139	$ 3,229,013	$ 3,348,453	$ (119,440)	$ 3,343,688	$ (44,451)
2	Thrift Plan	90,156	1,321	91,477	90,156	91,477	(1,321)	90,156	(1,321)
3	Health Care	523,193	148,368	671,561	693,484	693,484	0	693,484	21,923
4	Pension	624,767	12,279	637,046	162,454	637,046	(474,592)	162,454	(474,592)
5	PEBOP	614,847	(145,345)	469,502	469,502	469,502	0	469,502	0
6	Payroll Overheads	(859,795)	(52,956)	(912,751)	(1,666,244)	(902,059)	(764,185)	(753,493)	159,258
7	Deferred Early Retirement Cost Amortization	152,208	105,526	257,734	0	257,734	(257,734)	0	(257,734)
8	Deferred Enhanced Severance Program Amortization	0	49,751	49,751	0	49,751	(49,751)	0	(49,751)
9	Purchased Water	107,788	87,528	195,316	117,837	185,484	(67,647)	160,366	(34,950)
10	Tank Painting Amortization-Old	3,096	6,091	9,187	6,141	6,141	0	6,141	(3,046)
11	Power	1,242,538	514,265	1,756,803	1,496,761	1,826,433	(329,672)	1,826,433	69,630
12	Amortization of Deferred Power	0	516,667	516,667	258,525	489,764	(231,240)	500,644	(16,023)
13	Chemicals	235,950	78,224	314,174	299,174	299,174	0	299,174	(15,000)
14	Water Qualty Testing (Outside Lab Only)	78,348	7,662	86,010	71,670	81,270	(9,600)	71,670	(14,340)
15	Columbia Water Treatment Plant Misc Opex-Telephone, Water Quality Testing,Natural Gas,other Utilities,Security Alarm Monitoring,Sanitation	0	57,210	57,210	57,210	57,210	0	57,210	0
16	Variable Cost Savings Due to CWTP Operations	0	(139,580)	(139,580)	(139,580)	(139,580)	0	(139,580)	0
17	Transportation Expense	362,613	43,652	406,265	348,854	356,061	(7,207)	356,061	(50,204)
18	Customer Postage	170,280	8,061	178,341	178,341	178,341	0	178,341	0
19	Outside Computer	384,481	14,416	398,897	398,897	398,897	0	398,897	0
20	Outside Collection	99,590	(20,125)	79,465	79,465	79,465	0	79,465	0
21	Customer Records & Collection Expense/Miscellaneous Customer Accounting Expenses	18,009	(10,879)	7,130	7,130	7,130	0	7,130	0
22	Uncollectibles	162,706	(31,661)	131,045	125,516	131,045	(5,529)	131,045	0
23	IPUC Annual Assessment	72,347	3,476	75,823	72,347	80,807	(8,460)	76,828	1,005
24	Rate Case Expense Amortization	-	81,667	81,667	46,500	98,822	(52,322)	59,117	(22,550)
25	Relocation Expense Amortzation	25,688	1,477	27,165	0	16,000	(16,000)	16,000	(11,165)
26	Business Insurance	789,765	293,535	1,083,300	899,036	1,083,300	(184,264)	899,036	(184,264)
27	Adjust Dues, Eliminate Lobbying & Charitable Give	14,005	(14,005)	0	(17,433)	0	(17,433)	(17,433)	(17,433)
28	Information Technology	105,094	51,046	156,140	105,094	156,140	(51,046)	105,094	(51,046)
29	Test Year Miscode	2,995	(2,995)	0	0	0	0	0	0
30	Expenses Related to Customer Growth	0	73,022	73,022	56,542	95,645	(39,103)	62,092	(10,930)
31	Expenses Related to Weather Normalization	0	(8,792)	(8,792)	(10,680)	(12,641)	1,961	(12,641)	(3,849)
32	Outside Services Legal	82,851	(28,851)	54,000	36,255	54,000	(17,745)	36,255	(17,745)
33	Amortization of Deferred Terra Grande Expenses	0	1,569	1,569	775	775	0	775	(794)
34	Removal of Carriage Hill Operating Expense	0	(986)	(986)	(1,631)	(1,631)	0	(1,631)	(645)
	Total Adjusted O&M	8,259,104	1,933,193	10,192,297	$ 7,471,110	$ 10,173,440	$ (2,702,330)	$ 9,162,280	$ (1,030,017)

REVISED ATTACHMENT 2
CASE NO. UWI-W-04-4
ORDER NO. 29871